

Avoiding Predatory Lending

Kentucky Department of Financial
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- Charters, licenses and registers various financial institutions, securities firms and professionals
- Conducts examinations and investigations
- Provides educational materials for consumers



Mortgages in the News

White House announces lifeline in mortgage meltdown

Rocky Mountain News (CO) - February 13, 2008

Author: Martin Crutsinger, Associated Press

Homeowners this day reprieve und

Mortgage crisis has hit minorities especially hard

Olympian, The (WA) - February 13, 2008

As we spend this month celebrating the achievements of African Americans, I'm saddened by a report that concludes that the subprime mortgage crisis has caused the largest loss of jobs among African Americans and Latino homeowners.

MORTGAGE CRISIS SPREADS BEYOND SUBPRIME LOANS

New York Times, The (NY) - February 12, 2008

Author: VIKAS BAJAJ and LOUISE STORY

People with good credit ratings, who have made payments, possibly until recently, are

MORTGAGE MESS LOOKS TOO FAMILIAR

Argus Leader (Sioux Falls, SD) - February 9, 2008

Author: Staff, Matt Okerlund, Staff

Stop me if you have heard this before: Reckless lenders pocketed profits of cash on speculative investments while borrowers paid high interest rates and whistle merrily.

Mortgage crisis not so simple

Advocate, The (Baton Rouge, LA) - February 9, 2008

Things are not always as simple as they seem. Case in point is the letter questioning authenticity of the tremendous losses experienced by sub-prime lenders. Those not experienced in the subprime mortgage industry do not fully

Two Factors at Work


- Nontraditional products:
 - Adjustable Rate Mortgage (ARM) Loans
 - Pay Option ARMs
 - Interest Only Loans
- Subprime borrowers:
 - People with less-than-perfect credit

Predatory Lending

➤ DEFINITION

- Any of a number of fraudulent, deceptive, discriminatory or unfavorable lending practices.
- Many of these practices are illegal, while others are legal but not in the best interest of the borrowers.

8 Signs of Predatory Home Loans

1. Excessive Fees
 2. Abusive Prepayment Penalties
 3. Yield Spread Premiums (Kickbacks to Brokers)
 4. Loan Flipping
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8 Signs of Predatory Home Loans

- 5. Unnecessary Products (Insurance)
- 6. Mandatory Arbitration
- 7. Steering and Targeting
- 8. Bait and Switch



More Things to Watch Out For

- If it sounds too good to be true, it is.
- Beware of “limited time only” offers.
- Do not give out personal information over telephone or Internet.
- Do not pay for credit counseling or credit repair.
- Do not deal with an unlicensed lender.
- Do not sign documents you don’t understand or that have incorrect information.
- Do not provide false information to qualify.
- Get all promises in writing.


Good Advice

- Shop around for the best loan.
- Read the loan agreement and ask questions.
- Get copies of loan documents at the time you sign them.
- Consult with someone you trust.
- The law allows three business days to cancel the loan.

Other Things to Be Wary Of

- Advance Fee Schemes
- Selling or Buying Assistance
- Reverse Mortgages

Advance Fee Schemes

- Advance fee schemes are illegal.
 - Presented as “no-fee” or “no-cost” loans.
 - Company requests a payment up front for the “first payment” or “insurance.”
 - No loan is provided.
 - Many times the up front payment cannot be recovered.
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- The bottom of the slide features a decorative graphic of several concentric circles, resembling ripples in water, rendered in a lighter shade of blue against the main blue background.

Selling or Buying Assistance

- Assist to Own Programs
- Offer to buy a home and finance it back to you.
- Offer to repair credit, obtain down payment, solve problems with insufficient employment or bank accounts, etc.
- You do not need assistance to buy or sell.
- You should not be charged to repair your credit.

Reverse Mortgages

- Can be good products for some.
- Make sure you understand how it works.
- If you are 62, live in and own your home, you are eligible.
- It is due when the last surviving borrower dies, sells the home or permanently moves out.
- Loan amounts vary; several payment options.
- Do not draw more money than you need.
- Do not use reverse mortgage for investing.

Three Types of Reverse Mortgages

1. Single Purpose Reverse Mortgages
2. Federally Insured Reverse Mortgages
3. Proprietary Reverse Mortgages



Alternatives to Reverse Mortgages

1. Sell your home.
 2. Use proceeds of home sale to buy a smaller home or rent.
 3. Invest the remainder of the proceeds.
- Beware of someone pushing a reverse mortgage who tells you what to do with the proceeds.
 - Understand the terms.

Reverse Mortgage Contacts

- AARP Foundation

www.aarp.org/revmort/list

- U.S. Department of Housing and Urban Development (HUD)

www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm

- Federal Trade Commission Consumer Response Center

www.ftc.gov/bcp/menus/consumer/credit.shtm



Call us to check out the background of your
loan officer or to file a complaint:

KY Department of Financial Institutions

800-223-2579

www.kfi.ky.gov